

# Police and Fire Pension Fund

## MISSION STATEMENT

It is the mission of the Police and Fire Pension Funds to provide retirement benefits for retired police officers and firefighters and their beneficiaries through employer and employee contributions and investment earnings.

## PRIMARY FUNCTIONS

The primary function of this non-operating budgetary unit is to finance pensions for employees by both employer and employee contributions combined with interest earnings on those contributions. These three revenue streams, if based on sound actuarial assumptions, should generate sufficient funds for employee retirement without placing either an undue burden on the employer or a risk to the pension due the employee.

## POLICE PENSION FUND BUDGET SUMMARY

	2011 <u>ACTUAL</u>	2012 <u>BUDGET</u>	2012 <u>ESTIMATED</u>	2013 <u>BUDGET</u>	INCREASE (DECREASE)
<b>APPROPRIATION</b>					
PERSONNEL	\$12,387,023	\$4,463,520	\$13,183,325	\$4,770,072	\$306,552
CONTRACTUAL	358,869	383,950	329,479	371,190	(12,760)
SUPPLIES	0	200	84	70	(130)
OTHER	<u>99,900</u>	<u>109,200</u>	<u>109,200</u>	<u>111,600</u>	<u>2,400</u>
TOTAL	<u>12,845,792</u>	<u>4,956,870</u>	<u>13,622,088</u>	5,252,932	296,062
NON-APPROPRIATION	<u>0</u>	<u>8,725,000</u>	<u>0</u>	<u>8,725,000</u>	<u>0</u>
TOTAL EXPENSE	<u>\$12,845,792</u>	<u>\$13,681,870</u>	<u>\$13,622,088</u>	<u>\$13,977,932</u>	<u>\$296,062</u>

	2010 <u>ACTUAL</u>	2011 <u>ACTUAL</u>	2012 <u>BUDGET</u>	2013 <u>BUDGET</u>	INCREASE (DECREASE)
<b>FUNDING SOURCE</b>					
POLICE DEPARTMENT TRANSFER					
POLICE PENSION PROPERTY TAX	\$2,766,826	\$4,316,216	\$3,673,220	\$3,673,220	\$0
POLICE PENSION REPLACE TAX	<u>978,600</u>	<u>862,600</u>	<u>790,300</u>	<u>1,096,852</u>	<u>306,552</u>
TOTAL CITY CONTRIBUTION	3,745,426	5,178,816	4,463,520	4,770,072	306,552
INTEREST INCOME	18,324,394	11,037,385	5,800,000	3,450,000	(2,350,000)
FV APPRECIATION(DEPRECIATION)	<u>-3,057,997</u>	<u>(8,966,330)</u>	<u>1,500,000</u>	<u>4,000,000</u>	<u>2,500,000</u>
INVESTMENT INCOME	15,266,397	2,071,055	7,300,000	7,450,000	150,000
EMPLOYEE CONTRIBUTIONS	<u>1,975,149</u>	<u>1,986,500</u>	<u>1,981,300</u>	<u>2,000,800</u>	<u>19,500</u>
TOTAL	<u>\$20,986,972</u>	<u>\$9,236,371</u>	<u>\$13,744,820</u>	<u>\$14,220,872</u>	<u>\$476,052</u>
ACTUARY'S CONTRIBUTION REQUIREMENT	\$5,900,674	\$5,178,816	\$4,463,520	\$4,770,072	\$306,552
AMORTIZATION AMOUNT			\$62,950	\$242,940	

# Police and Fire Pension Fund

## FIRE PENSION FUND BUDGET SUMMARY

APPROPRIATION	2011 ACTUAL	2012 BUDGET	2012 ESTIMATED	2013 BUDGET	INCREASE (DECREASE)
PERSONNEL	\$12,929,522	\$6,295,842	\$14,166,163	\$5,776,061	(\$519,781)
CONTRACTUAL	480,220	509,700	395,175	514,975	5,275
SUPPLIES	0	200	84	100	(100)
OTHER	101,700	99,900	109,200	111,600	11,700
TOTAL	13,511,442	6,905,642	14,670,622	6,402,736	(502,906)
NON-APPROPRIATION	0	7,350,000	0	9,275,000	1,925,000
TOTAL EXPENSE	\$13,511,442	\$14,255,642	\$14,670,622	\$15,677,736	\$1,422,094

FUNDING SOURCE	2010 ACTUAL	2011 ACTUAL	2012 BUDGET	2013 BUDGET	INCREASE (DECREASE)
FIRE DEPARTMENT TRANSFER					
FIRE PENSION PROPERTY TAX	\$4,483,682	\$5,200,985	\$4,133,879	\$4,133,879	\$0
FIRE PENSION REPLACE TAX	1,174,300	1,035,100	948,400	1,642,182	693,782
TOTAL CITY CONTRIBUTION	5,657,982	6,236,085	5,082,279	5,776,061	693,782
INTEREST INCOME	6,757,037	9,142,053	4,700,000	4,000,000	(700,000)
FV APPRECIATION(DEPRECIATION)	3,344,267	(6,046,886)	5,000,000	4,000,000	(1,000,000)
INVESTMENT INCOME	10,101,304	3,095,167	9,700,000	8,000,000	(1,700,000)
EMPLOYEE CONTRIBUTIONS	1,798,076	1,699,844	1,912,200	1,969,100	56,900
TOTAL	\$17,557,362	\$11,031,096	\$16,694,479	\$15,745,161	(\$949,318)
ACTUARY'S CONTRIBUTION					
REQUIREMENT	\$6,951,034	\$7,045,842	\$5,082,279	\$5,776,061	\$693,782
AMORTIZATION AMOUNT			\$1,728,300	\$67,425	

## BUDGET HIGHLIGHTS

- The City utilizes an independent actuary to determine the necessary funding for these two plans on an annual basis. Once this is determined, the City funds the plans based on the recommendations of the independent actuary. There were no changes with respect to plan provisions, actuarial methods, or actuarial assumptions from the prior year.
- For 2012, the Police plan earned \$2.2 million in interest income while the Fire plan earned \$2.9 million in interest income.
- The Police and Fire plans also realized \$12.3 and \$6.8 million respectively on the sale of investments.
- In addition, reflecting fair market value adjustments of investments, the Police Pension Fund recorded a gain of \$243,600 while the Fire Pension Fund recorded a gain of \$1.7 million.
- Investment expenses were \$197,000 for Police and \$375,200 for Fire.
- Approximate annual rates of return were above the assumption rate of 7.5%, with 9.5% for Police and 8.7% for Fire.
- Police contribution requirement increases to \$4,770,072. The increase in the contribution requirement is due to the increase in the annual payroll. The percent funded in 2011 was 73.8%.

## **Police and Fire Pension Fund**

- Fire contribution requirement increases to \$5,776,061. The increase in the contribution requirement is due to the increase in the annual payroll. The percent funded in 2011 was 67.2%.

### **OPERATIONAL INFORMATION**

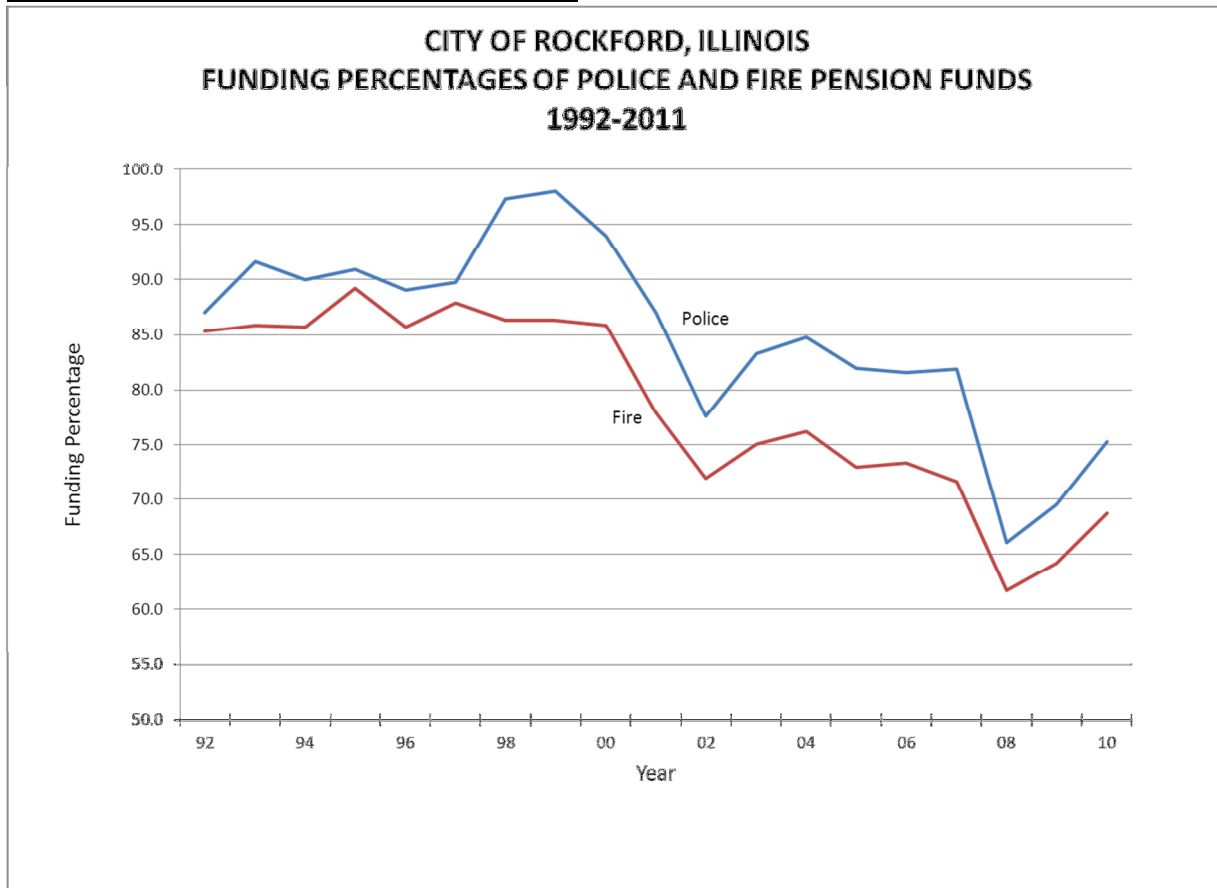
In 1993, the State of Illinois increased the pension benefits for these two plans. This increase not only increased costs for the future but it also significantly increased the unfunded liability for service already earned. With the member contribution rate increased only marginally, the bulk of the cost of paying for these improved benefits fell to local governments. To mitigate this, the State replaced the existing forty year level dollar amortization schedule begun in 1980 with a new 1993 forty year level percentage schedule. The City has elected, as long as was possible, to fund the annual contribution based on the 1980 schedule. For 2002, the last year that making this additional contribution was possible, this election added \$406,805 to the Police contribution and \$1,002,874 to the Fire contribution. Due to continuing and increasingly severe property tax cap restrictions, the City in 2003 changed and began to recognize the 1993 amortization method. The impact of this change for 2003 was estimated to be \$980,000 for the Police contribution and \$1,750,000 for the Fire contribution.

Effective July 1, 2004, the State changed the surviving spouse formula for the Fire Pension from 54% of ending salary to 100% of ending pension. To help fund this increased benefit, the firefighter contribution from salary was increased from 8.455% to 9.455%, an addition of \$166,400 and the municipal contribution was calculated at \$365,000, 2.1 cents on the tax rate. 30 of the 48 surviving spouses accounted for a first year cost increase of \$215,000. For the future, this will add an additional \$20,000 annually for each new surviving spouse. The State exempted the property tax necessary for this new benefit from the tax cap law.

The State of Illinois enacted a reform package for Illinois police and fire pension plans in 2010. Benefit changes, for new hires beginning January 1, 2011, included the following: (1) normal retirement age of 55 (currently 50); (2) early retirement at age 50 with 6% reduction for each year prior to 55; (2) pensionable salary cap of \$106,800 indexed to ½% of CPI-U; (3) final average salary calculated using the last 8 of 10 years (currently final day's salary); (4) survivor benefit of 66 2/3% of pension earned at date of death (currently 100% of pension); and (5) cost of living adjustments beginning the year after a retiree or survivor turns age 60 with annual increases equaling the lesser of 3% simple or ½ of CPI-U (currently 3% compounded each year after pension becomes payable).

In addition, the following changes were made to public safety pension funding: (1) 30 year closed amortization period with a funding target of 90% by the end of 2040 (currently expires in 2033 with a funding target of 100%); (2) state shared revenue diversions to pension funds beginning in 2016 equaling the difference between the employer contribution and the required actuarial contribution. Three year phase in with up to 1/3 of state shared revenue diverted in 2016, up to 2/3 in 2017, and up to the full contribution difference beginning in 2018; (3) expanded investment authority including corporate bonds for all funds and greater equity investments for funds with assets of at least \$10 million; and (4) 5 year smoothing of actuarial gains and losses. The first actuarial study to be performed using these changes was completed in the spring of 2011 for the year ended 2010 for the 2012 budget levy and the 2013 budget expense.

## Police and Fire Pension Fund

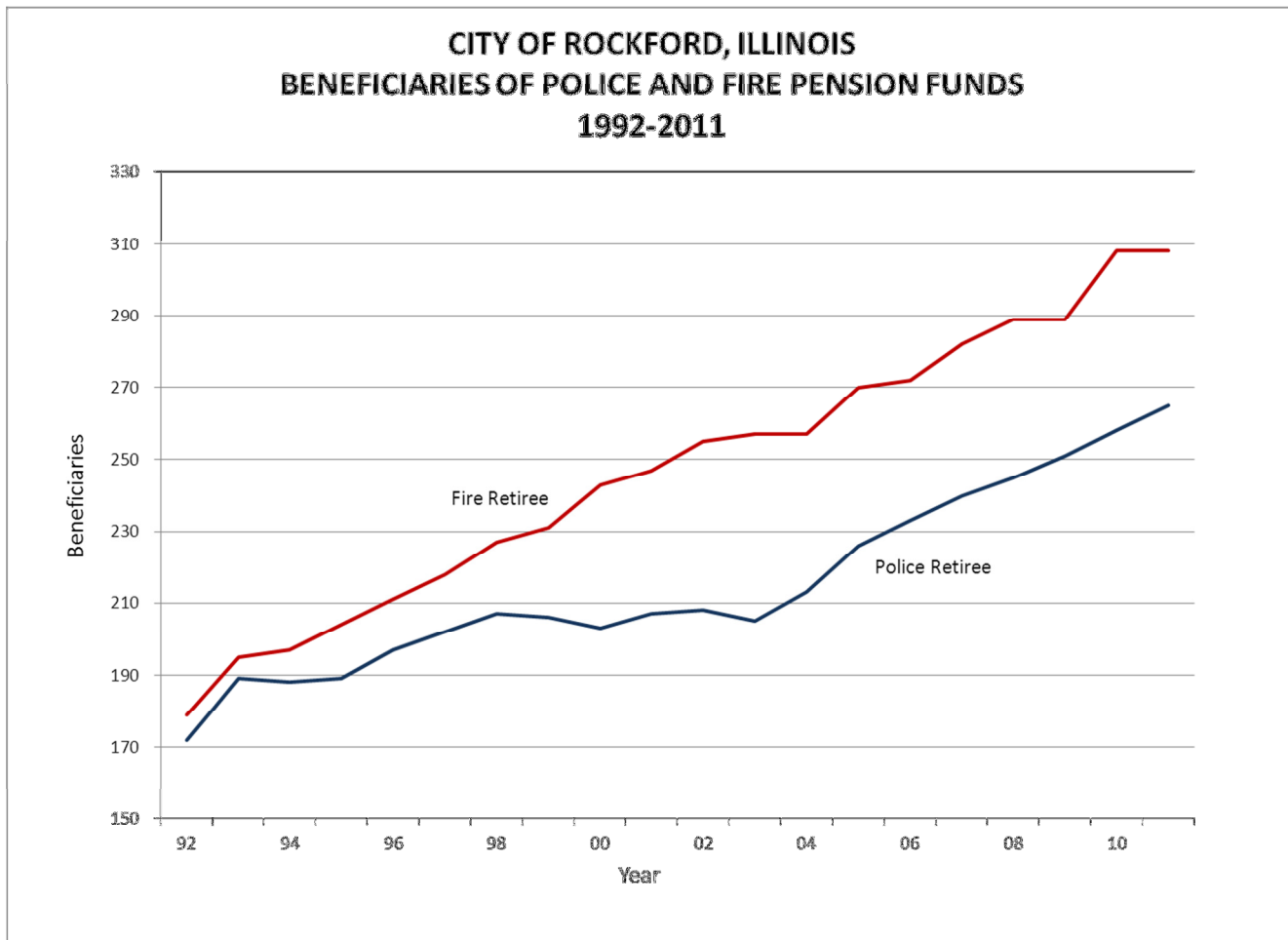


### ROCKFORD PENSION PLANS

	<u>Police</u>	<u>Fire</u>	<u>IMRF/SS</u>
Employees	Sworn	Sworn	All Other
2013 Employer Rate	23.63%	27.73%	19.87%
2013 Employee Rate	9.910%	9.455%	10.70%
Social Security Included	No	No	Yes (6.2%)
Plan Administration	Local	Local	State
Retirement Age	50	50	55/60
Vesting (Years)	10	10	8
Pension (20 Years Service)	50%	50%	35%
Pension Limit	75%	75%	75%
Years To Achieve Limit	30	30	40
Pension Based On	Last Pay	Last Pay	Average of (4) Highest Consecutive Years In Last (10)

Trends for the two funds include active member percentage decreasing as the number of retirees increase as well as dollar costs rising.

## Police and Fire Pension Fund



Approximately one-half of the annual revenues for these two plans are generated from investment earnings. While member contributions have increased to 9.91% for Police in 2000 and 9.455% for Fire in 2005, employee contributions are still the smallest element of the financing equation.

The City contributions are funded from property taxes and state replacement taxes. Pension property taxes are unlimited; however, property tax extension limitations (tax caps) do apply on a total city basis except for the new benefit provision for Fire Pension surviving spouses. For 2013, estimated rates are 23.9 cents for the Police plan and 26.8 cents for the Fire plan. 2012 rates are estimated at 20.9 and 23.5 cents respectively. The property tax rate increase is due to the plan cost increase. For the Fire plan, 3.4 cents for 2012 and 3.0 cents for 2013 are exempt from tax caps.

Both plans utilize the Finance Department's staff. The Police pension fund will also utilize a consultant, \$40,000, and a custodian, \$2,200, as well as six money managers at an estimated cost of \$199,000 (2012-\$150,001). The Fire pension uses a consultant, \$65,000, a custodian, \$8,500, and ten money managers at an estimated cost of \$401,000 (2012-\$302,183). Each fund pays the State Department of Insurance \$8,000 annually for oversight services.

# Police and Fire Pension Fund

## POLICE PENSION FUND FIVE YEAR FINANCIAL FORECAST (IN 000'S)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues	\$22,000	\$23,066	\$24,225	\$25,448	\$26,757
Expenditures	<u>14,633</u>	<u>15,177</u>	<u>15,738</u>	<u>16,315</u>	<u>16,909</u>
Excess (Deficit)	<u>7,367</u>	<u>7,889</u>	<u>8,487</u>	<u>9,133</u>	<u>9,848</u>
Beginning Balance	<u>175,287</u>	<u>182,654</u>	<u>190,543</u>	<u>199,030</u>	<u>208,163</u>
Ending Balance	<u>\$182,654</u>	<u>\$190,543</u>	<u>\$199,030</u>	<u>\$208,163</u>	<u>\$218,011</u>
Property Tax Rates (in cents)	25.8	27.8	30.0	32.4	34.8

## FIRE PENSION FUND FIVE YEAR FINANCIAL FORECAST (IN 000'S)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues	\$21,006	\$21,932	\$22,903	\$23,939	\$25,033
Expenditures	<u>15,903</u>	<u>16,485</u>	<u>17,085</u>	<u>17,702</u>	<u>18,338</u>
Excess (Deficit)	<u>5,103</u>	<u>5,447</u>	<u>5,818</u>	<u>6,237</u>	<u>6,695</u>
Beginning Balance	<u>156,300</u>	<u>161,404</u>	<u>166,851</u>	<u>172,669</u>	<u>178,906</u>
Ending Balance	<u>\$161,404</u>	<u>\$166,851</u>	<u>\$172,669</u>	<u>\$178,906</u>	<u>\$185,601</u>
Property Tax Rates (in cents)	28.9	31.1	33.5	36.1	38.8

The 2014-2018 five-year forecast on a traditional basis, assumes five percent City and employee contribution increases as well as a 7.5% return on investments. The combined impact for the two plans of this increase on the property tax rate would be approximately four cents annually. Costs are assumed to rise annually due to three percent pension increases and an annual new retiree group of five. This forecast does not address a number of issues such as mortality, disability, and withdrawal that an actuary would. In addition, it makes no assumptions as to the likelihood of additional benefits gained through the legislative process in Springfield.